

Report on
Market Conduct Examination

of

Fidelity & Guaranty Life Insurance Company
Des Moines, Iowa

by Representatives of the
North Carolina Department of Insurance

as of

March 7, 2014

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Raleigh, North Carolina
March 7, 2014

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Nick Gerhart
Commissioner of Insurance
Iowa Insurance Division
Two Ruan Center
601 Locust, 4th Floor
Des Moines, Iowa 50309-3438

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a compliance examination has been made of the market conduct activities of

Fidelity & Guaranty Life Insurance Company
(NAIC # 63274)
NAIC Exam Tracking System Exam Number: NC299-M39
Des Moines, Iowa

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of Fidelity & Guaranty Life Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that revealed no concerns were omitted.

SCOPE OF EXAMINATION

This compliance examination commenced on July 22, 2013, and covered the period of January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through January 30, 2014. This action was taken due to previous examination findings referenced in the Market Conduct Report of February 11, 2008.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of policyholder treatment, marketing, and underwriting practices.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints, producers who were not appointed and/or licensed; and 10 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing a violation, the Department issues a reminder to the company.

Previous Examination Findings

A target examination covering the period January 1, 2006, through December 31, 2006, was performed on the Company and a report dated February 11, 2008, was issued. The target examination report identified concerns in the areas of policyholder treatment, marketing, and underwriting practices. Specific previous violations relating to these areas are listed within the appropriate sections of the report. Deficiencies noted in the previous examination report that

did not exceed the Department's error tolerance thresholds were cited as reminders and may appear as specific violations in this examination report. Any reminders which have not been sufficiently addressed by the Company, may be cited again in this examination report and thus may not appear in the "previous findings" as related to that particular section, but were an overall concern in the previous examination.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with Company procedures and practices in the following areas:

Consumer Complaints – Untimely response to Departmental inquiries.

Underwriting – Individual Life and Annuities Issued: Applications signed and dated prior to the producer's licensure and/or appointment. Individual Life and Annuity Replacements: Failure to send written communication to the existing insurer or within five business days from the date application was received.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web Site www.ncdoi.com, by clicking "INSURANCE DIVISIONS" then "Legislative Services".

This examination identified various non-compliant practices, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company's practices and ensure consumer protection.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 1, Section 0602 as 38.9 percent of the complaints were not responded to within the required seven calendar days and no extension was requested or granted.

The entire population of 25 consumer complaint files was reviewed. **The current examination revealed the following:**

A chart of the consumer complaints by type follows:

Type	2010	2011	2012
Administration Related	1	7	8
Agent Related	1	4	
Claims Related		2	1
Underwriting Related		1	
Total	2	14	9

Six consumer complaints (24.0 percent error ratio) were not responded to within seven calendar days and no extension was requested or granted. The Company was again deemed to be in violation of the provisions of 11 NCAC 1.0602.

The average service time to respond to a Departmental complaint was eight calendar days. A chart of the response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	19	76.0
8 - 14	3	12.0
15 - 21	1	4.0
22 - 30	1	4.0
31 - 60	1	4.0
Total	25	100.0

MARKETING

Producer Terminations

The Company's procedures for terminating producers were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of NCGS 58-33-56(b) and (d) as 48.0 percent of the files did not contain evidence that a notification of termination was sent to the Department within 30 days of the effective date of termination or did not contain evidence that written notification of termination was sent to the producer within 15 days after notifying the Department of the termination.

Fifty terminated producer files from a population of 109 were randomly selected for review. **The current examination revealed the following:**

One producer termination file (2.0 percent error ratio) evidenced a notification of termination that was not sent to the Department within 30 days of the effective date of termination. The Company was reminded of the violation of the provisions of NCGS 58-33-56(b) and (d).

UNDERWRITING PRACTICES

Individual Life Issued

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was reminded of the provisions of NCGS 58-39-55 as 6.0 percent of the files evidenced policies that were issued other than applied for as the disability income rider was declined:
 - a) One policy file did not evidence an Adverse Underwriting Decision (AUD) notice.
 - b) Five policy files contained an AUD notice that was not filed with or approved by the Department.

- The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40 as 19.0 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.

Fifty policy files from a population of 412 were randomly selected for review. **The current examination revealed the following:**

Six policy files (12.0 percent error ratio) contained an application that was signed and dated by a producer not licensed or appointed within 15 days after the date the first insurance application was submitted. The Company was again deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40.

The average service time to underwrite and issue a policy was 21 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	15	30.0
8 - 14	9	18.0
15 - 21	6	12.0
22 - 30	11	22.0
31 - 60	5	10.0
Over 60	4	8.0
Total	50	100.0

Individual Life Issued Substandard

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as 100 percent of the policy files did not contain evidence that an AUD notice was provided to the applicant, policyowner, or proposed insured or that the file contained an AUD notice that was not filed with or approved by the Department.
- The Company was deemed to be in violation of the provisions of 11 NCAC 4.0507 as 12.0 percent of the policy files contained a revised illustration that was not labeled "REVISED".

- The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 10.0 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.

The entire population of 12 policy files was reviewed. **The current examination revealed the following:**

No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

The average service time to underwrite and issue a policy was 47 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	1	8.3
8 - 14	1	8.4
22 - 30	3	25.0
31 - 60	3	25.0
Over 60	4	33.3
Total	12	100.0

Individual Life Declined

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as 100 percent of the application files did not contain evidence that an AUD notice was provided to the applicant, policyowner, or proposed insured or that the file contained an AUD notice that was not filed with or approved by the Department.
- The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40 as 30.0 percent of the application files contained an application that was signed and dated prior to the producer's appointment.

The entire population of 25 application files was reviewed. **The current examination revealed the following:**

No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

The average service time to underwrite and decline an application was 25 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	4	16.0
8 - 14	2	8.0
15 - 21	5	20.0
22 - 30	6	24.0
31 - 60	7	28.0
Over 60	1	4.0
Total	25	100.0

Individual Life Replacements

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(b)(4) as 4.0 percent of the policy files were coded incorrectly and included in the population resulting in invalid receipts.
- The Company was reminded of the provisions of 11 NCAC 12.0607(3) and (4) and 12.0612(a)(3) as 2.1 percent of the policy files contained a Notice Regarding Replacement that was not signed by the applicant and producer.
- The Company was deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2) and (d) as 37.5 percent of the policy files evidenced the following:
 - a) Eight policy files did not contain written notification to the existing insurer advising of the replacement.
 - b) Ten policy files contained written notification to the replaced insurer that was not sent within five business days from the date the application was received in the home office.
- The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40 as 10.4 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.

- The Company was deemed to be in violation of the provisions of 11 NCAC 1.0602 as the Company failed to furnish a complete and accurate response in writing to the Department within seven calendar days of receipt of the Examiner's request.

The entire population of 22 policy files was reviewed. **The current examination revealed the following:**

The Company was again deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2) and (d) as seven files (31.8 percent error ratio) evidenced the following:

- One policy file did not contain written communication to the existing insurer advising of replacement.
- Six policy files contained written communication to the replaced insurer that was not sent within five business days from the date the application was received in the home office.

The service time could not be calculated on one policy file as no communication was sent to the replaced insurer. The survey was based on the remaining 21 policy files.

The average service time from the date the application was received to the date on the notification letter to the replaced insurer was ten calendar days. A chart of the average service time to notify the existing insurer of replacement from date of application until the date of notification follows:

Service Days	Number of Files	Percentage of Total
1 - 7	15	71.3
8 - 14	3	14.3
15 - 21	1	4.8
22 - 30	1	4.8
Over 60	1	4.8
Total	21	100.0

Individual Annuities Issued

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 26.0 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.
- The Company was deemed to be in violation of the provisions of 11 NCAC 1.0602 as the Company failed to furnish a complete and accurate response in writing to the Department within seven calendar days of receipt of the Examiner's request.

Fifty policy files from a population of 454 were randomly selected for review. **The current examination revealed the following:**

The Company was again deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as one file (2.0 percent error ratio) contained an application that was signed and dated prior to the producer's appointment.

The average service time to underwrite and issue a policy was 29 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	9	18.0
8 - 14	10	20.0
15 - 21	7	14.0
22 - 30	10	20.0
31 - 60	7	14.0
Over 60	7	14.0
Total	50	100.0

Individual Annuity Replacements

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(b)(4) as 4.0 percent of the policy files were coded incorrectly and included in the population resulting in invalid receipts.
- The Company was deemed to be in violation of the provisions of 58-33-26 and 58-33-40 as 29.2 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.

- The Company was reminded of the provisions of 11 NCAC 12.0607(3) and (4) and 12.0612(a)(3) as 4.2 percent of the policy files contained a Notice Regarding Replacement that was not signed prior to or at the time of application.
- The Company was reminded of the provisions of 11 NCAC 12.0612(a)(2) as 8.3 percent of the policy files contained written notification to the replaced insurer that was not sent within five working days from the date the application was received in the home office.

Fifty policy files from a population of 433 were randomly selected for review. **The current examination revealed the following:**

The Company was again reminded of the provisions of NCGS 58-2-131(i), NCGS 58-2-185, and 11 NCAC 19.0106(b)(4) as three files (6.0 percent error ratio) were declined due to suitability evaluation and were invalid receipts. The review was based on the remaining 47 files.

The Company was again deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2) and (d) as ten files (21.3 percent error ratio) contained a written communication to the replaced insurer that was not sent within five business days from the date the application was received in the home office.

The average service time from the date the application was received to the date on the notification letter to the replaced insurer was six calendar days. A chart of the average service time to notify the existing insurer of replacement from date of application until the date of notification follows:

Service Days	Number of Files	Percentage of Total
1 - 7	37	78.7
8 - 14	7	14.9
15 - 21	1	2.1
22 - 30	2	4.3
Total	47	100.0

SUMMARY

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of February 11, 2008. The current examination revealed the following:

1. Consumer Complaints

- a. The Company was again deemed to be in violation of the provisions of 11 NCAC 1.0602 as 24.0 percent of the complaints were not responded to within the required seven calendar days and no extension was requested or granted.

2. Producer Terminations

- a. The Company was reminded of the provisions of NCGS 58-33-56 (b) and (d) as 2.0 percent of the files evidenced a notification of termination that was not sent to the Department within 30 days of the effective date of termination.

3. Individual Life Issued

- a. The Company was again deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40 as 12.0 percent of the policy files contained an application that was signed and dated by a producer not licensed or appointed within 15 days after the date the first insurance application was submitted.

4. Individual Life Replacements

- a. The Company was again deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2) and (d) as 31.8 percent of the policy files did not contain written communication to the existing insurer or contained written communication that was not sent within five business days from the date the application was received in the home office.

5. Individual Annuities Issued

- a. The Company was again deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40 as 2.0 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.

6. Individual Annuities Replacements

- a. The Company was again reminded of the provisions of NCGS 58-2-131(i), NCGS 58-2-185, and 11 NCAC 19.0106(b)(4) as 6.0 percent of the policy files were declined due to suitability evaluation and were invalid receipts.

- b. The Company was again deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2) and (d) as 21.3 percent of the policy files did not contain written communication to the existing insurer or contained written communication that was not sent within five business days from the date the application was received in the home office.

CONCLUSION

An examination has been conducted on the market conduct affairs of Fidelity & Guaranty Life Insurance Company for the period January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through January 30, 2014.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the areas of policyholder treatment, marketing, and underwriting practices.

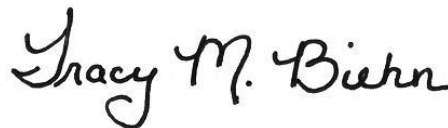
In addition to the undersigned, Linda Sinclair, ACS, AIRC, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,



Vicki S. Royal, CPM, ACS, AIAA, AIRC
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.



Tracy M. Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina